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Measures of Cyclical Stabilisation Showing Early Effects

Economic Outlook for 2009 and 2010

In the wake of the international economic crisis, Austrian exports have fallen precipitously year-on-year since early 2009. Yet, the fiscal counter-action taken in the industrialised countries is showing early positive effects. Not only in Austria, but in the entire euro area and the USA, business surveys suggest a stabilisation of demand and output as from the middle of this year. Nevertheless, activity in Austria will once more decline in the second quarter as compared with the previous period. The cyclical pattern is thus broadly in line with the one underlying the previous WIFO forecast of last spring. However, since results for the first quarter turned out weaker than expected, WIFO is taking down its projection for GDP for the whole of 2009 to –3.4 percent. The forecast of a stabilisation in 2010 with a growth rate of 0.5 percent is being maintained.

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Edging down by 0.4 percent in the fourth quarter 2008 from the previous period, activity in Austria proved more resilient than the euro area average (–1.8 percent) and notably Germany (–2.2 percent). Yet, in early 2009 merchandise exports took a sharp setback also in Austria, and the cyclical downturn gathered momentum. Exacerbated also by one-off factors, real GDP fell by 2.6 percent quarter-on-quarter, at the same pace as in the euro area (–2.5 percent). The updated WIFO forecast maintains the profile of a deceleration of the downward trend in the second quarter, coming to a halt towards the end of the year. This is confirmed by the results from the latest round of the WIFO business survey where firms reported in May for the second time in a row that their situation is down at a low, but with no further worsening expected for the months to come. This is broadly consistent with sample results for Germany, the whole euro area and the USA.

For the second quarter, WIFO therefore projects a smaller decline of GDP than the one seen in the first quarter. In the third quarter, activity is likely to fall no further but stagnate at the level of the previous period. By the end of 2009, growth should tentatively pick up under the impact of the massive fiscal stimulus introduced worldwide. While the measures taken will stabilise economic activity, WIFO does not yet expect a self-sustained economic upturn. Import demand from the USA and from the countries in east-central Europe remains too weak as to provide lasting incentives for the euro area economies. On annual average 2009, domestic output will therefore remain 3.4 percent below the year-earlier level, followed by a modest 0.5 percent pickup in 2010.

The global recession leads to a fall in Austrian merchandise exports by around 15 percent in volume this year. Also tourism exports will recede, by a projected 6.5 percent. While goods exports should start heading up in 2010 (+0.7 percent), tourism exports are set to edge down once again, by 1 percent.

Private household demand is proving resilient to a high degree. Despite lower gains in per-capita gross earnings along with declining employment, a squeeze in income from private financial assets and a looming further rise in unemployment, private consumption will edge up by 0.2 percent in volume this year. This is primarily the result of fiscal expansion. Thanks to the cut in income tax, real income per capita will increase by 3.3 percent net this year, distinctly faster than the +1.8 percent in gross terms.

Table 1: Main results

		2005	2006	2007	2008	2009	2010
		Percentage changes from previous year					
GDP							
Volume		+ 2.9	+ 3.4	+ 3.1	+ 1.8	− 3.4	+ 0.5
Value		+ 5.0	+ 5.3	+ 5.3	+ 4.2	− 1.9	+ 1.4
Manufacturing[1], volume		+ 4.8	+ 9.6	+ 5.5	+ 3.3	− 10.0	± 0.0
Wholesale and retail trade, volume		+ 2.2	− 1.0	+ 1.5	− 0.1	− 2.5	+ 0.5
Private consumption expenditure, volume		+ 2.6	+ 2.4	+ 1.0	+ 0.8	+ 0.2	+ 0.5
Gross fixed investment, volume		+ 2.4	+ 2.6	+ 4.7	+ 1.8	− 5.9	− 1.0
Machinery and equipment[2]		+ 5.5	+ 0.9	+ 6.8	+ 2.0	− 11.0	− 1.0
Construction		− 0.4	+ 4.2	+ 2.8	+ 1.7	− 1.5	− 1.0
Exports of goods[3]							
Volume		+ 3.2	+ 6.8	+ 8.7	+ 0.9	− 15.1	+ 0.7
Value		+ 5.4	+ 9.5	+ 10.5	+ 2.3	− 16.5	+ 1.4
Imports of goods[3]							
Volume		+ 2.9	+ 4.1	+ 8.0	+ 1.7	− 11.2	+ 0.4
Value		+ 5.9	+ 8.0	+ 9.6	+ 4.3	− 13.6	+ 2.0
Current balance	billion €	+ 4.92	+ 7.26	+ 8.41	+ 9.82	+ 2.31	+ 2.66
As a percentage of GDP		+ 2.0	+ 2.8	+ 3.1	+ 3.5	+ 0.8	+ 0.9
Long-term interest rate[4]	in percent	3.4	3.8	4.3	4.3	3.7	3.9
Consumer prices		+ 2.3	+ 1.5	+ 2.2	+ 3.2	+ 0.5	+ 1.2
Unemployment rate							
Eurostat definition[5]	in percent	5.2	4.8	4.4	3.8	5.3	5.8
National definition[6]	in percent	7.3	6.8	6.2	5.8	7.4	8.5
Persons in active dependent employment[7]		+ 1.0	+ 1.7	+ 2.1	+ 2.4	− 1.5	− 1.1
General government financial balance according to Maastricht definition							
As a percentage of GDP		− 1.6	− 1.6	− 0.5	− 0.4	− 4.3	− 5.8

Source: WIFO Economic Outlook. – [1] Value added, including mining and quarrying. – [2] Including other products. – [3] According to Statistics Austria. – [4] 10-year central government bonds (benchmark). – [5] According to Eurostat Labour Force Survey; 2008: break. – [6] According to Public Employment Service Austria, as a percentage of total labour force excluding self employed. – [7] Excluding parental leave, military service, and unemployed persons in training.

In the face of the recession, companies hold back on their investment projects. Gross fixed capital formation will contract by almost 6 percent in volume in 2009, with demand for machinery and equipment falling by 11 percent, much more strongly than that for new construction (–1.5 percent). Investment is unlikely to pick up even by 2010.

The slump in foreign demand is hitting notably the manufacturing sector whose net output will shrink by 10 percent in volume this year. Meanwhile, the downturn has reached also the service branches whose output usually lags in the business cycle. Distribution, tourism, transport, financial and real estate services will suffer non-negligible losses in 2009. Only public and personal services will still post small output gains.

Inflation is still receding on an annual basis. In May, consumer prices remained virtually constant (+0.3 percent) and the coming months may see even slightly negative rates. For the whole year 2009, WIFO expects headline inflation at a rate of 0.5 percent. In 2010, the rebound in oil prices will push inflation up to 1.2 percent. The cyclically sensitive rate of core inflation is projected to moderate from 1.3 percent in 2009 to 1.1 percent. WIFO considers the dangers of either a sustained period of deflation in the wake of the global recession or of high inflation as a consequence of strong monetary expansion as extremely low.

Given the unfavourable business trend, WIFO is also revising down its labour market outlook. In 2009, the number of people in dependent active employment will fall by 50,400 or 1.5 percent from the previous year. Despite the severe crisis the decline remains nevertheless contained, which is owed largely to government measures to facilitate the recourse to short-time work. In 2010, another 35,000 jobs will be lost on aggregate (–1.1 percent). The number of unemployed will go up by 58,400 this year and a further 39,000 in 2010. The jobless rate as calculated on conventional national definitions will ratchet up to 7.4 percent and 8.5 percent in 2009 and 2010, respectively.

Worldwide fiscal stimulus showing effect in the second semester

The tensions on international financial markets have eased during the last few months, as witnessed notably by the narrowing differential between the interest rates set by the central banks and interbank lending rates. Nevertheless, central banks continue to play a key role in this stabilisation process, and real estate prices keep falling. In this way, the collateral of claims backed by real estate assets is shrinking on a sustained basis which may exert renewed pressure on financial markets.

Table 2: World economy

	2005	2006	2007	2008	2009	2010
	Percentage changes from previous year					
Real GDP						
World	+ 4.5	+ 5.1	+ 5.2	+ 2.5	– 1.5	+ 1.8
Total OECD	+ 2.7	+ 3.1	+ 2.7	+ 0.9	– 3.5	+ 0.3
USA	+ 2.9	+ 2.8	+ 2.0	+ 1.1	– 2.7	+ 0.5
Japan	+ 1.9	+ 2.0	+ 2.4	– 0.7	– 5.5	+ 0.5
EU 27	+ 2.0	+ 3.1	+ 2.9	+ 0.9	– 4.0	+ 0.3
Euro area 16	+ 1.7	+ 2.9	+ 2.7	+ 0.8	– 4.2	+ 0.3
Germany	+ 0.8	+ 3.0	+ 2.5	+ 1.3	– 6.0	+ 0.5
New EU countries[1]	+ 4.7	+ 6.5	+ 6.0	+ 4.0	– 3.0	+ 1.0
China	+ 10.4	+ 11.6	+ 13.0	+ 9.0	+ 6.0	+ 7.0
World trade, volume	+ 7.9	+ 9.5	+ 7.1	+ 2.5	– 15.0	+ 1.0
Market growth[2]	+ 7.8	+ 11.1	+ 7.6	+ 3.5	– 15.0	+ 0.5
Primary commodity prices						
HWWA index, total	+ 28.5	+ 19.7	+ 3.7	+ 22.4	– 33	+ 18
Excluding energy	+ 5.6	+ 22.0	+ 9.5	+ 15.6	– 24	+ 5
Crude oil prices						
Brent, $ per barrel	54.4	65.1	72.5	97.0	60	75
Exchange rate						
$ per euro	1.245	1.256	1.371	1.471	1.45	1.45

Source: WIFO Economic Outlook. – [1] Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania. – [2] Real import growth of trading partners weighted by Austrian export shares.

In the USA, the real economy appears to have entered a period of stabilisation. Major leading indicators like the Index of Supply Management (ISM) or the surveys of consumer confidence by the Conference Board and the University of Michigan point in that direction. At the same time, the fall in employment has clearly lost momentum while the rate of unemployment remains at its long-time high. For 2009, WIFO projects US real GDP to contract by 2.7 percent. The prospect of the slump being less severe than in the euro area is largely due to a more forceful policy counteraction. According to estimates by the European Commission, the US general government deficit will widen by 6 percentage points from last year in 2009 to a ratio of 12 percent of GDP. In the euro area, the government balance is set to weaken by "only" 3½ percentage points. The strong fiscal impulse in the USA will boost demand mainly in 2010, for which reason growth should resume at a rate of 0.5 percent. Nevertheless, US activity should remain sluggish overall for a couple of years. The depreciation of assets caused by the financial crisis will have to be compensated by an increase in the private saving ratio, which will dampen consumption growth and thereby demand for foreign consumer goods for many years to come.

In all industrialised countries, policy is taking action to sustain economic activity. Such a co-ordinated approach adds to the effectiveness of the stimulus programmes also for the smaller economies. In this way, economic policy should succeed in stabilising demand on an international scale.

The current economic crisis hits most severely the export-oriented economies like Japan. In the first few months of 2009, Japanese export values fell by nearly 50 percent year-on-year. GDP in the first quarter 2009 declined by 3.8 percent from the previous period when a slump of similar magnitude was recorded (–3.6 percent). For the whole year, WIFO expects a contraction of GDP by 5.5 percent.

Likewise, the highly export-dependent economy of China is suffering from the global recession. The Chinese government has adopted a stimulus "package" that is the relatively largest in size of all countries. Domestic demand is to be fuelled by fiscal expansion to the tune of 7 percent of GDP. The measures are likely to have shown early effects, with a reported massive increase in investment. The WIFO projection is for 6 percent growth of Chinese GDP in 2009.

European economies particularly hard hit by the crisis

Because of the surprisingly strong decline in Germany in the first quarter, WIFO has to revise down its GDP forecast for the euro area for 2009 by more than 1 percentage point from last spring, to a year-on-year fall by 4.2 percent. In the first quarter, euro area output edged down by 2.5 percent from the previous period, following a 1.8 percent fall in the fourth quarter 2008. The profile is largely shaped by Germany where GDP slumped by 3.8 percent quarter-on-quarter early this year. In all larger euro area countries, a clear setback of activity has been observed (France –1.2 percent, Italy –2.4 percent, Spain –1.9 percent).

The crisis has serious consequences in particular for the largely export- and manufacturing-driven German economy, with GDP projected to drop by 6 percent in volume this year. Due to the turbulences on financial markets, the catching-up process of the countries in east-central Europe is virtually coming to a halt. GDP for this area is set to fall by 3 percent, almost by as much as the –4.2 percent expected for the euro area.

Many countries in the euro area have reinforced their fiscal stabilisation programmes, although their estimated amount of 3.5 percent of GDP in 2009 falls clearly short of the action taken in the USA. For this reason, the 2009 downswing will turn out more severe in the euro area than in the USA, even if the overall economic conditions are relatively more favourable in Europe.

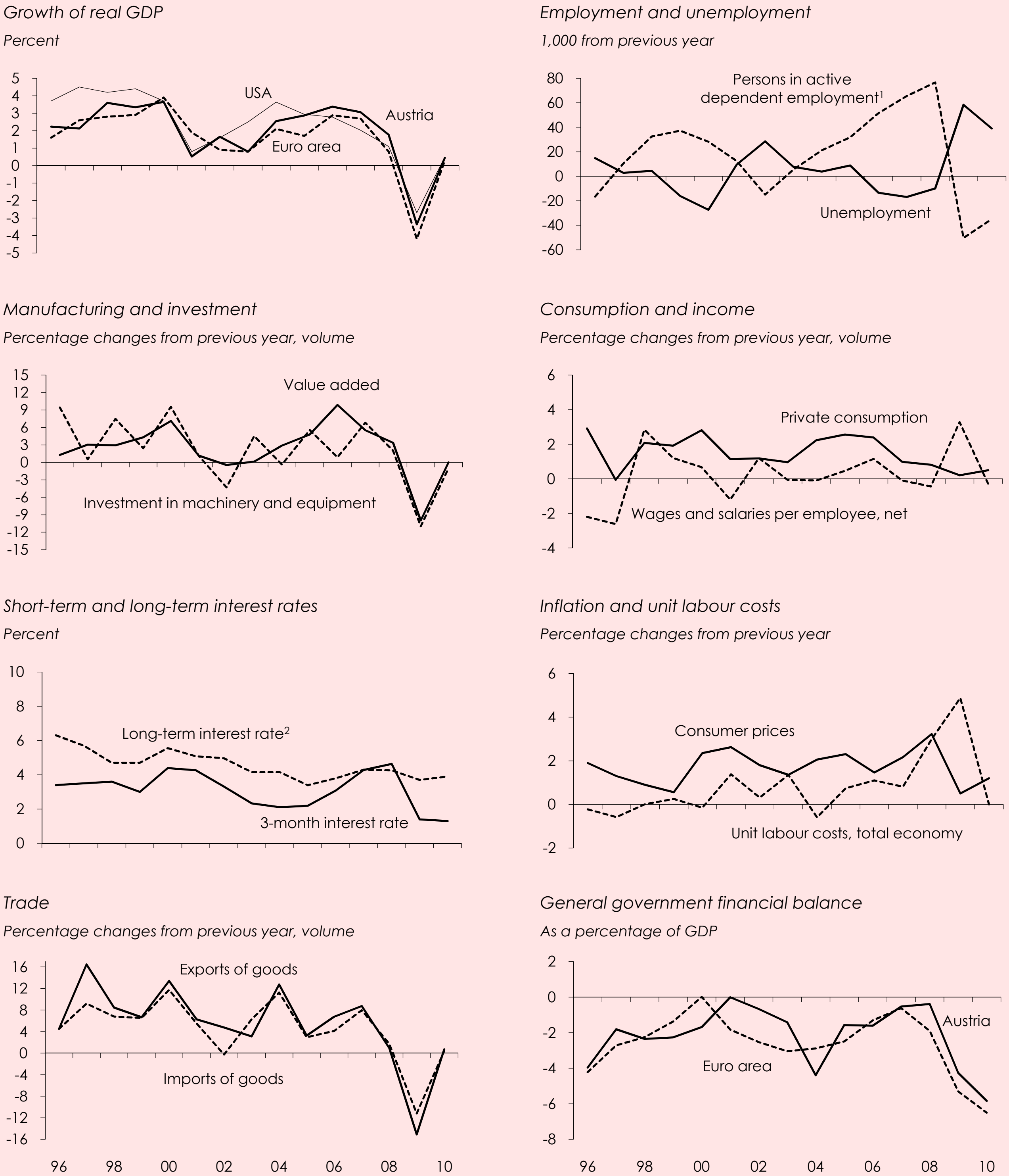
Monetary policy, due to its limited effectiveness in the present situation, will contribute less to a revival of demand than fiscal policy. It is, moreover, even in crisis times less geared towards expansion in the euro area than in the USA: while the Federal Reserve lowered its key interest rate to close to 0 percent already in December 2008, the ECB has left its main intervention rate unchanged at 1 percent since May. Although in view of the gravest economic crisis since World War II and headline inflation having fallen to 0 percent in May 2009 there would still be scope for a further lowing of interest rates in the euro area, the current projections do not anticipate a further relaxation of the monetary reins.

The differential in government bond yields between the countries in the euro area, after having widened as a reflection of the uncertainty prevailing on financial markets, has narrowed again markedly in the last few months. This is a further indication of a gradual stabilisation on international financial markets.

The current projections assume that euro area GDP will shrink less in the second quarter 2009 than in the previous period. This is confirmed by survey results for the euro area as sampled by the European Commission, whereby firms have turned tentatively more confident in their business expectations for the next three months. By mid-2009, the downward trend in euro area output should thus be arrested, largely owing to the expansionary policy stance. In 2010, demand should head up gradually, allowing growth to resume at a modest 0.3 percent annual rate, following the slump by 4.2 percent in 2009. A self-sustained cyclical upswing is still not expected as the shortfall of demand from the USA and from east-central Europe will continue to weigh on euro area exports in 2010.

As a consequence of the financial market crisis, the hitherto lively momentum of the catching-up process in east-central Europe is virtually stalling. While the economies of the eight new EU member states that are not part of the euro area expanded at an aggregate rate of 4 percent in 2008, the projection is for a 3 percent setback in 2009. The growth differential vis-à-vis the euro area (2009 –4.2 percent) is thus narrowing in the negative territory, whereas between 2005 and 2008 the growth advantage of the eight new member states had been at least 3 percentage points per year. For 2010, WIFO expects growth rates to converge further (euro area +0.3 percent, east-central Europe +1 percent).

Figure 1: Indicators of economic performance



Source: WIFO Economic Outlook. – [1] Excluding parental leave, military service, and unemployed persons in training. – [2] 10-year central government bonds (benchmark).

Notably Austria's key economic partners in east-central Europe are facing severe problems. Growing risk aversion on international markets, triggered by the financial crisis, is leading to massive capital outflows from Hungary. In order to stabilise its currency, the country had to rely on support from the IMF. The economic stabilisation programme agreed in this context implies fiscal restriction in times of crisis. The Hungarian economy will therefore suffer a major setback this year, as GDP has already retreated by 2.3 percent from the previous period in the first quarter.

In spite of financial claims of Austrian banks vis-à-vis these countries being substantial, the danger for them of facing major disruptions is deemed limited. Business operations of Austrian financial institutions have been concentrated on the supply of credits to companies and private households. With claims thus widely spread among debtors, defaults should remain contained overall even under most adverse circumstances. In case of insolvency of debtors, claims are not necessarily lost given the possibility of debt rescheduling with deferred redemption.

Export-led slump in business activity

The size of the setback of demand and output in Austria in the first quarter calls for a substantial downward revision of the WIFO forecast for GDP in 2009, to a likely contraction by 3.4 percent in volume. Like in other countries, activity is expected to stabilise as from the middle of 2009. Due to the expansionary stance of fiscal policy, private consumption should remain upward bound despite a deteriorating labour market. Growth should pick up in 2010 at a modest rate of 0.5 percent.

The fall in output in the fourth quarter 2008 by 0.4 percent from the previous period was smaller in size than in the euro area (–1.8 percent). Subsequently, in early 2009, GDP slumped by 2.6 percent in volume. The acceleration of the downturn was driven by merchandise exports which in the first three months of 2009 dropped around 23 percent from the year-earlier level.

Results from the WIFO business survey, like those from the euro area survey, point to a slower downward momentum in the second quarter. In the third quarter, the economy may enter a period of stagnation, yielding for the whole year 2009 a fall in demand and output by 3.4 percent. While the adverse trend on Austrian export markets will weigh on foreign trade well into 2010, growth of private consumption will to some extent be fuelled by the comprehensive fiscal stimulus measures taken by the government. Overall GDP should thus edge up by 0.5 percent in 2010.

Investment, for its part, is set to continue falling in 2010, as it did in 2009, albeit at a slower pace of 1 percent in volume as compared with the –5.9 percent expected for 2009. The measures adopted in support of construction activity will not be able to fully compensate for the demand shortfall in the sector.

The recession is increasingly spilling over to the services sector. The forecast is for a fall in real value added in nearly all branches, with the exception of the supply of public and private services which remains upward bound.

Export slump with full impact on manufacturing sector

Merchandise exports have lost momentum already since 2008. In early 2009, monthly data showed drastic losses from the previous year. According to official foreign trade data, goods exports from January to March fell by a nominal 23 percent from last year. In April, results have been additionally distorted downwards by the lower number of working days due to the late Easter holidays. The data series adjusted for seasonal and calendar influences nevertheless point to an imminent stagnation. Also the assessment of new industrial orders by companies in the regular WIFO business survey did not weaken further. Relatively larger were the losses in foreign trade with the partners in the euro area, but also the exchange of goods with other regions diminished considerably.

The projection for merchandise exports in 2009 must therefore be taken down significantly, to a year-on-year fall of around 15 percent in volume, which by and large corresponds to the size of contraction of Austria's foreign markets. The increase in market shares observed over the last years has thus apparently levelled off for the time being. On the back of the demand incentives provided by the worldwide government stimulus programmes, the fall in Austrian exports should turn around to a small gain of 0.7 percent in real terms.

The slump in exports is dragging down manufacturing output in particular, with an expected decline of real value added by 10 percent in 2009. Many firms struggle with excess productive capacity and either need to lay off workers or resort to government-subsidised short-term work arrangements. Meanwhile, the number of registered short-time workers exceeds 60.000 and the government envisages the extension of the maximum duration to 24 months. Nevertheless, manufacturers will cut their workforce by more than 6 percent this year. In 2010, when net real output is expected to no longer decline, employment may still fall by a further 3 percent.

Other sectors suffering from the fall in exports are wholesale trade, transport and commercial services, where value added may recede more than in other areas.

Table 3: Productivity

	2005	2006	2007	2008	2009	2010
	Percentage changes from previous year					
Total economy						
Real GDP	+ 2.9	+ 3.4	+ 3.1	+ 1.8	− 3.4	+ 0.5
Employment[1]	+ 1.1	+ 1.5	+ 1.7	+ 1.9	− 1.2	− 0.7
Productivity (GDP per employment)	+ 1.7	+ 1.9	+ 1.3	− 0.1	− 2.2	+ 1.2
Manufacturing						
Production[2]	+ 4.8	+ 9.9	+ 5.5	+ 3.4	−10.0	± 0.0
Employees[3]	− 0.8	+ 0.2	+ 2.6	+ 1.7	− 6.3	− 3.0
Productivity per hour	+ 6.2	+ 9.5	+ 3.2	+ 2.1	− 2.5	+ 3.1
Working hours per day per employee[4]	− 0.6	+ 0.2	− 0.3	− 0.5	− 1.5	± 0.0

Source: WIFO Economic Outlook. – [1] Dependent and self-employed according to National Accounts definition. – [2] Value added, volume. – [3] According to Federation of Austrian Social Security Institutions. – [4] According to "Konjunkturerhebung" of Statistics Austria.

Firms' appetite for investment greatly reduced

Companies cut back on their investment plans as a consequence of the gloomy business situation. In addition, the financial market crisis has complicated the access to external finance via securitised debt instruments. Banks have also turned cautious in the extension of credit, largely warranted by worsening conditions in the real economy. However, if banks should seek to return government capital injections as early as possible, it may narrow their equity capital base and thereby constrain their lending capacity.

Although some companies face constraints in their access to credit, investment is primarily held back by the gloomy business outlook.

In the current year, investment in machinery and equipment is likely to recede by 11 percent in real terms, as confirmed also by the latest issue of the regular WIFO investment survey. For 2010, a further decline by 1 percent is expected. The introduction of an accelerated depreciation allowance as part of the "cyclical stimulus package II" will provide only limited support, as will probably also the measures to improve the access to credit for small and medium-sized enterprises.

However, the frontloading of investment projects by the Federal Railways (OeBB) and the Federal Real Estate Agency (BIG), the incentives provided for the insulation of buildings and the creation of new day-care facilities for children will at least in part boost demand for new construction already in 2009. Total construction output will nevertheless shrink by 1.5 percent and 1 percent in 2009 and 2010, respectively, since the shortfall in private demand for new building will dominate the positive impact of the policy incentives.

Increasing losses in the tourism sector

After the last winter season which owing to favourable weather conditions turned out well for the Austrian tourism industry, overnight stays and earnings have taken a sharp decline. Hotel owners complain about a marked fall in demand, nowadays extending also to the high-quality accommodations which in the last years have been the main beneficiaries of lively demand.

The recession is undermining labour market conditions and private income growth. People's concerns about the safety of their jobs are dampening the demand for travel both in Austria and abroad. Earnings of the tourism sector will decline both in 2009 and 2010.

For 2009, WIFO expects earnings from tourism exports to fall by an inflation-adjusted 6.5 percent. The persistently weak labour market situation abroad looks set to depress earnings by a further 1 percent. As a result, net output of the hotel and restaurant sector will contract by 4.8 percent in 2009 and 0.5 percent in 2010.

Such a drop would nevertheless be small in an international comparison. Private households in Europe will under the impression of the crisis not refrain completely from travelling, but give preference to destinations closer to home. The Austrian tourism sector could benefit from such a shift in preferences and may thus gain market shares despite a fall in earnings.

Private consumption stabilising domestic activity

The relatively high wage agreements concluded in 2008 for 2009, the swift deceleration of inflation and the income tax cuts have boosted real incomes and thereby consumption of private households, despite financial market losses and a marked worsening of labour market conditions. In 2009, private consumption is projected to edge up by a small 0.2 percent. Many of the fiscal measures introduced in 2009 will benefit consumers also in 2010. WIFO therefore expects a slight pick-up in household demand to a rate of 0.5 percent.

Table 4: Private consumption, income and prices

	2005	2006	2007	2008	2009	2010
	Percentage changes from previous year					
Private consumption expenditure	+ 2.6	+ 2.4	+ 1.0	+ 0.8	+ 0.2	+ 0.5
Durables	+ 5.9	+ 7.0	+ 6.2	− 1.0	− 2.9	− 0.7
Non-durables and services	+ 2.2	+ 1.9	+ 0.4	+ 1.0	+ 0.5	+ 0.6
Household disposable income	+ 3.1	+ 3.5	+ 2.2	+ 0.7	+ 0.9	+ 0.1
	As a percentage of disposable income					
Household saving ratio	9.8	10.8	11.7	11.5	12.0	11.7
	Percentage changes from previous year					
Direct lending to domestic non-banks[1]	+ 4.7	+ 4.5	+ 3.6	+ 7.4	+ 2.2	+ 3.2
	Percentage changes from previous year					
Inflation rate						
National	2.3	1.5	2.2	3.2	0.5	1.2
Harmonised	2.1	1.7	2.2	3.2	0.5	1.3
Core inflation[2]	1.5	1.3	1.9	2.4	1.3	1.1

Source: WIFO Economic Outlook. – [1] End of period. – [2] Excluding unprocessed food (meat, fish, fruits, vegetables) and energy items.

The tax-cut-related increase in net incomes will, however, not translate entirely into consumer demand. A sizeable part will, particularly in 2009, be channelled into higher saving. The private saving ratio will thus ratchet up by 0.5 percentage point, rather unusual for periods of crisis. In 2010, it is expected to abate by 0.3 percentage points, thereby reinforcing the stabilising role of consumption.

In 2009, the relatively high wage settlements of last year and the speedy disinflation are strengthening real disposable income. Next year, the major boost to private consumption will derive from the tax cuts taking effect in 2009. Despite swiftly rising unemployment and wages coming under downward pressure, private consumption growth may pick up slightly in 2010.

Table 5: Earnings and international competitiveness

	2005	2006	2007	2008	2009	2010
	Percentage changes from previous year					
Gross earnings per employee[1]	+ 2.4	+ 3.2	+ 2.3	+ 2.9	+ 2.3	+ 1.2
Gross real earnings per employee[1]	+ 0.1	+ 1.4	+ 0.1	− 0.0	+ 1.8	± 0.0
Net real earnings per employee[1]	+ 0.5	+ 1.2	− 0.1	− 0.4	+ 3.3	− 0.3
Total economy						
Unit labour costs	+ 0.7	+ 1.1	+ 0.8	+ 3.0	+ 4.9	+ 0.0
Manufacturing						
Unit labour costs	− 0.9	− 4.4	− 0.6	+ 1.4	+ 3.7	− 1.3
Effective exchange rate, manufactures						
Nominal	− 0.6	+ 0.2	+ 1.2	+ 1.1	+ 1.1	± 0.0
Real	− 0.9	− 0.4	+ 0.8	+ 0.6	+ 0.8	± 0.0

Source: WIFO Economic Outlook. – [1] Employees according to National Accounts definition.

Inflation nearly coming to a halt

The steep fall in oil prices drives headline inflation towards zero this year. In 2010, oil prices are likely to rebound, pushing up also domestic consumer prices.

As predicted by WIFO last March, year-on-year inflation continued to decelerate in spring. By May, consumer prices were virtually no higher (+0.3 percent) than one year ago. In the coming months, headline inflation may occasionally drop below zero. The severity of the recession and the implicit output gap may take the world economy into a period of sustained deflation. However, monetary policy has turned strongly expansionary on an international scale, and the scope for further relaxation has not been exhausted. The two opposing forces should broadly neutralise each other this year and next. WIFO expects neither a deflationary spiral nor an imminent spell of high inflation as the latter would require a massive increase in consumer demand beyond production capacities for which there are currently no indications.

After a swift increase in the price of Brent to $ 144 per barrel by mid-July 2008 and the subsequent fall to around $ 35 last December, the reference price of oil bounced back to above $ 70 by mid-June 2009. While the strong price movement still has an inflation-dampening effect in an annual comparison this year, the opposite may occur in 2010. The WIFO projection for headline inflation is 0.5 percent for 2009 and 1.2 percent in 2010.

Employment declining despite determined counter-action

While the severe economic crisis has so far hit manufacturing industry in particular, it is now increasingly threatening employment also in the service sector. In May, the number of people in dependent active employment, as recorded by the Association of Austrian social insurance agencies, dropped 1.6 percent below the level of last year. The seasonally-adjusted trend in a monthly comparison remains downward bound (–0.2 percent).

The repercussions of the recession are increasingly felt on the Austrian labour market. The number of people in dependent active employment will go down by over 50.000 this year and another 35.000 in 2010. Unemployment is moving up to a rate of 8.5 percent by 2010.

Table 6: Labour market

		2005	2006	2007	2008	2009	2010
		Changes from previous year, in 1,000					
Demand for labour							
Persons in active employment[1]		+ 37.2	+ 54.9	+ 64.8	+ 86.0	– 54.4	– 39.0
Employees[2]		+ 31.9	+ 51.5	+ 65.5	+ 76.7	– 50.4	– 35.0
Percentage changes from previous year		*+ 1.0*	*+ 1.7*	*+ 2.1*	*+ 2.4*	*– 1.5*	*– 1.1*
Nationals		+ 20.0	+ 35.0	+ 43.6	+ 53.2	– 43.8	– 31.2
Foreign workers		+ 11.9	+ 16.5	+ 21.9	+ 23.5	– 6.6	– 3.8
Self-employed[3]		+ 5.3	+ 3.4	– 0.7	+ 9.3	– 4.0	– 4.0
Labour supply							
Population of working age	15 to 64 years	+ 13.4	+ 12.8	+ 15.5	+ 27.7	+ 20.2	+ 27.5
	15 to 59 years	+ 46.5	+ 47.3	+ 17.1	+ 17.6	+ 13.6	+ 13.7
Labour force[4]		+ 45.9	+ 41.4	+ 47.9	+ 76.0	+ 4.0	± 0.0
Surplus of labour							
Registered unemployed[5]		+ 8.8	– 13.5	– 16.9	– 10.0	+ 58.4	+ 39.0
In 1,000		252.7	239.2	222.2	212.3	270.7	309.7
Unemployed persons in training	In 1,000	48.6	57.5	52.7	50.5	61.8	67.8
		Percent					
Unemployment rate							
Eurostat definition[6, 7]		5.2	4.8	4.4	3.8	5.3	5.8
As a percentage of total labour force[5]		6.5	6.1	5.6	5.2	6.7	7.6
National definition[5, 8]		7.3	6.8	6.2	5.8	7.4	8.5
Employment rate							
Persons in active employment[1, 9]		63.0	63.9	64.8	66.0	64.8	63.8
Total employment[6, 9]		68.6	70.2	71.4	72.1	70.9	70.0

Source: WIFO Economic Outlook. – [1] Excluding parental leave, military service, and unemployed persons in training. – [2] According to Federation of Austrian Social Security Institutions. – [3] According to WIFO. – [4] Economically active employment plus unemployment. – [5] According to Public Employment Service Austria. – [6] According to Eurostat Labour Force Survey. – [7] 2008: break. – [8] As a percentage of total labour force, without self-employed. – [9] As a percentage of population of working age (15 to 64 years).

The option of government-subsidised short-time work is taken up by firms on a widespread scale. Meanwhile, more than 60,000 persons are registered as temporary short-time workers. Nevertheless, employment is declining further. WIFO expects for 2009 a decrease in the number of people in dependent active employment (excluding people in general military service or on parental leave) by 50,400 or 1.5 percent, and for 2010 by 35,000 (1.1 percent). This projection does not take account of a possible extension of the maximum duration of short-time work to 24 months, although the effect is likely to be small. A combination of reinforced vocational retraining schemes with short-time work could reduce the danger of the latter inhibiting structural adjustment. In this way, a possible sharp rebound in unemployment in certain sectors after the expiry of the temporary relief measures may be avoided.

The supply of labour remains broadly constant, as the number of foreign workers declines, labour market entry for young people is becoming more difficult and the employment services reinforce their training programmes. Nevertheless, unemployment is heading up markedly this year, by a projected 58,400. A further increase by 39,000 to a total above 300,000 is likely. The rate of unemployment, on conventional national definitions, is moving up to 7.4 percent in 2009 and 8.5 percent in 2010.

Methodological Notes and Short Glossary

Period Comparisons

Time-series comparisons with the previous period, e.g., the previous quarter, are adjusted for seasonal effects. They also include effects that result from a different number of working days in the period (e.g., Easter). In the text, this is referred to as "seasonally and working day adjusted changes".

The phrase "changed compared with a year before....", on the other hand, describes a relative change compared with the same period a year before and refers to unadjusted time series.

The analysis of the seasonally and working day adjusted development provides more precise information about the actual course of economic activity and shows turning points sooner. However, the data are subject to additional revisions as seasonal adjustment is based on statistical methods.

Real and nominal values

In principle, the values shown must be understood as real values, i.e., adjusted for price effects. Whenever values are shown as nominal values (e.g., foreign trade statistics), this is specifically mentioned.

Inflation, CPI und HICP

The inflation rate measures changes in consumer prices compared with a year before. The Consumer Price Index (CPI) is a measure of national inflation. The Harmonised Index of Consumer Prices (HICP) is the basis for comparable measurement of inflation in the EU and for the evaluation of price stability in the euro area (http://www.statistik.at/).

WIFO Business Cycle Survey and WIFO Investment Survey

The WIFO business cycle survey is a monthly survey in which around 1,100 Austrian firms are asked to assess their current and future economic situation. The WIFO investment survey is conducted twice a year, asking companies about their investment activity (http://www.itkt.at/). The indicators are balances between the positive and negative responses expressed as a percentage of the total number of firms sampled.

Unemployment Rate

Austrian national definition: The number of persons registered as job seekers with the Public Employment Service expressed as a percentage of the dependent labour force. Labour force is the sum of the unemployed and the persons in dependent employment (measured in standard employment relationships). Database: Registrations with the Public Employment Service (*AMS)* and Association of Austrian social insurance agencies.

Definition according to ILO and EUROSTAT: Any person who is not gainfully employed and is actively seeking work is considered unemployed. Gainfully employed persons comprise all persons who during the reference week worked for at least one hour in a self-employed capacity or in paid employment. Persons receiving child-care benefit and apprentices are classified as gainfully employed, whereas persons in military service or persons carrying out alternative service are not. The unemployment rate is the number of unemployed persons expressed as a percentage of the total labour force (unemployed persons plus gainfully employed persons). Database: Data from household surveys ("Mikrozensus").

Terms used in connection with the national definition of the unemployment rate

Persons in training: Persons who at a set date are enrolled in AMS (Public Employment Service) training programmes. When calculating the unemployment rate, their number is not taken into account either in the denominator or in the numerator.

Persons in dependent active employment: "Persons in dependent employment" include persons receiving child-care benefit, as well as persons in military service or persons carrying out alternative service with a valid employment contract. By deducting their number one arrives at the number of "persons in dependent active employment".

Recession and discretionary fiscal stimulus driving up budget deficit

The draft federal budget for 2009 and 2010 as well as current tax revenues since the beginning of the year indicate a sizeable shortfall of government resources as a consequence of the economic crisis. The general government deficit (as defined by the Maastricht criteria) is widening to 4.3 percent of GDP this year. The weakening of the fiscal position, broadly corresponding to the international average, is primarily due to the important measures taken in order to stabilise economic activity. Nevertheless, stronger consolidation efforts during the past cyclical boom would have allowed to reconcile a fiscal impulse of the same size with a smaller deficit.

In 2010, the deficit is projected to widen to 5.8 percent of GDP. A public debate about the scale and kind of deficit reduction in the subsequent years might induce economic agents to refrain from spending in times of the crisis, thereby reducing the effectiveness of the counter-cyclical fiscal action taken. Nevertheless, given the long administrative lag in implementing fiscal consolidation, considerations on how to return to budget balance once the crisis has been overcome would be appropriate.

The economic crisis leads to a massive shortfall in tax revenues also in Austria. At the same time, government expenditure is boosted by weak economic activity and expansionary fiscal measures. For 2009, the general government deficit is expected at 4.3 percent of GDP. In 2010, the gap is set to widen to 5.8 percent of GDP.

Table 7: Key policy indicators

	2005	2006	2007	2008	2009	2010
	As a percentage of GDP					
Fiscal policy						
General government financial balance						
According to Maastricht definition	− 1.6	− 1.6	− 0.5	− 0.4	− 4.3	− 5.8
According to National Accounts	− 1.7	− 1.7	− 0.7	− 0.5	− 4.3	− 5.8
General government primary balance	+ 1.3	+ 1.1	+ 2.2	+ 2.1	− 1.3	− 2.7
	Percent					
Monetary policy						
3-month interest rate	2.2	3.1	4.3	4.6	1.4	1.3
Long-term interest rate[1]	3.4	3.8	4.3	4.3	3.7	3.9
	Percentage changes from previous year					
Effective exchange rate						
Nominal	− 0.7	+ 0.2	+ 1.1	+ 1.2	+ 1.0	± 0.0
Real	− 1.0	− 0.5	+ 0.7	+ 0.6	+ 0.7	± 0.0

Source: WIFO Economic Outlook. – [1] 10-year central government bonds (benchmark).